# WEEKLY ECONOMIC REVIEW

**October 20, 2006**

In the announcement this week, the Bank of Canada maintained its key lending rate at 4.25 per cent. At the same time, the bank reduced its 2006 growth forecast to 2.8 percent from its earlier forecast of 3.2 per cent. Growth for 2007 was also cut to 2.5 per cent from 2.9 per cent, as the bank's latest forecast is that "the U.S. economy will slow more sharply than expected, leading to lower Canadian exports."

Key indicators released this week for the U.S. provided mixed signals. Housing starts jumped 5.9 per cent in September. However, building permits, which provide a good indicator for future starts fell 6.3 per cent. The CPI also fell to 0.5 per cent. Excluding volatile prices of food and energy, the core rate for the index rose 0.2 per cent, indicating that the Federal Reserve will likely not have to raise interest rates.

Canada's 12-month CPI inflation rate fell to 0.7 percent in September from 2.1 per cent in August, as oil prices plummeted 18.7 per cent. Despite the drop in oil prices, Alberta's CPI remained high at 3.7 per cent, as a result of a 48.6 percent increase in homeowners replacement costs- the highest among the provinces.

**Cdn Dollar (C¢/US$)**

| | |
|---|---|
| Oct 20, 2006 | 88.9¢ |
| Oct 13, 2006 | 88.0¢ |
| 2006-07 YTD | 89.1¢ |

**WTI Oil US$/bbl**

| | |
|---|---|
| Oct 19, 2006 | $58.50 |
| Oct 12, 2006 | $57.86 |
| 2006-07 YTD | $67.67 |

**Nymex Natural Gas C$/mcf***

**September Contract**

| | |
|---|---|
| Oct 20, 2006 | $7.92 |
| Oct 13, 2006 | $6.50 |

*Estimate based on Nymex Futures Market Price

As a result of decreasing commodity prices, Canada's manufacturing shipments dropped, despite the increase in volume. Nonetheless, Alberta was able to post a marginal gain in manufacturing shipments of 0.2 per cent.

Oil prices were quite volatile this week reaching a high of $59.94 with news from OPEC of a one million barrels-a-day production cut. Prices promptly plumeted to $57.65 after news that supplies of oil rose 5.1 million barrels, considerably higher than the 3.1 million barrels analysts were predicting. On the other hand, gas prices increased $1.42 over the week, as recent weather has been cooler than expected.

| Economic Indicators Released this Week | Reference Period | Month/Previous Month | Month/Previous Year's Month | Year-to-date[1] |
|---|---|---|---|---|
| **Consumer Price Index (1997=100)** | **September** | | | |
| **Alberta** | 141.7 | 0.2 | 3.7 | 3.9 |
| **Canada** | 130.0 | -0.5 | 0.7 | 2.2 |
| **United States (1982-84=100)** | 202.9 | -0.5 | 2.1 | 3.7 |
| **Manufacturing Shipments ($ Millions)** | **August** | | | |
| **Alberta** | 5,656 | 0.2 | 13.1 | 11.4 |
| **Canada** | 49,842 | -0.3 | 0.1 | 0.7 |
| **Wholesale Trade ($ Millions)** | **August** | | | |
| **Alberta** | 5,231 | 1.0 | 14.8 | 15.3 |
| **Canada** | 42,572 | 0.5 | 7.8 | 7.8 |

*Source: Statistics Canada, U.S. Bureau of Labour Statistics*

*[1]Year-to-date 2006 compared to the same time period in 2005. For example: January-August 2006 versus January-August 2005*